



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

PUBLIC HEALTH SERVICE

BETHESDA 14, MD.

NATIONAL INSTITUTES OF HEALTH

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PERSONAL

SPECIAL DELIVERY - AIR MAIL

Dear John:

I have been thinking a great deal about our talk on overhead yesterday. There is a lot to be said for your arguments against payment of overhead costs, and I agree with many of them. On the other hand, I must say frankly that payment of full overhead costs on our research grants is to me, on balance, the wise, equitable course of action.

My observation is that payment of overhead costs on research grants is not in any way a substitute for general financial aid to medical schools. The research grant funds that have been made available for research in the medical schools have added a heavy burden to the schools because the Federal funds have caused them to expand research far beyond what would be required to make their teaching strong. Of course, you could say that they do not have to take the research money. But, in fact, this research is in response to national needs and pressures. The schools cannot actually say that, because this expansion is not good for their teaching programs, they will not expand their research, so they extend their research efforts, and in doing so part of their own money and resources are used up through indirect costs.

My view is that payment of overhead simply puts the schools into a nonprofit, no-loss position, and does not allow them to "make a profit on" research grants, or "make new money available for the general expenses of the school."

Payment of full overhead would still leave the schools short of money to run a first class educational show because payment of full indirect costs just puts them back--financially--to where they would have been if they didn't take any research grants.

The net result of all this, in my mind, is that the two issues of overhead cost payment and general aid to medical education are two things that ought to be kept separate.

If general Federal aid to medical education were available--and my opinion is that this is not only inevitable but badly needed now--it would still, in my opinion, be wise to pay full overhead on research grants so long as we ask the medical schools to carry much more research than is required for a balanced teaching-research program.

These are the main points that I wanted to make, but there are a couple more.

On the question whether university presidents--as contrasted with medical school deans--are concerned over the fact that we don't pay full overhead, you and I must just talk with different people. I know for a fact that the Presidents of practically all universities that have made public statements or with whom I have discussed the matter feel the financial drain of the medical school keenly. All of the formal expressions of opinion of universities through the Association of American University Presidents, the National Education Association, and the American Council on Education strongly urge payment of full indirect costs on research grants in order to have the research programs pay their own way.

This bears on a second point--the politicking on indirect costs. I know that General Cutler and the other Boston people have borne down pretty hard on this issue. On the other hand, I don't think they are misstating the actual situation, or misrepresenting the views of the universities and medical schools generally.

Finally, it does not make sense to me to have the government pay full indirect costs in research contracts with private profit making concerns, and at the same time force the universities of the Nation into a position where it costs them money to do research with government money.

For all of these reasons I sincerely hope that you will find it possible to go along with the Senate on this question.

As a positive suggestion, why not use this as the occasion for setting up a study that will show authoritatively the status of the finances of medical schools? A study of this kind would have a number of implications and uses, and if you think the idea has any merit, I would like to talk it over with you.

No matter how the indirect cost question is decided, you know that we appreciate your help on everything relating to NIH.

Let's try to get together next week in Washington--or if more convenient for you I can come up to Providence.

Sincerely yours,



James A. Shannon, M.D.

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